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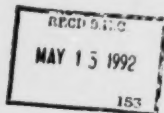
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SECURITIES AND EXCHANGE COMMISSION

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92-2262 15/

Washington, D.C. 20549

FORM 10-Q



(Mark One)

☒ X

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 1992

☐

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

PROCESSED BY

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Commission File Number 0-7481

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COMPUTER AUTOMATION, I

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-2498419

(I.R.S. Employer Identification No.)

1819 Firman Drive #101, Richardson, Texas

(Address of principal executive offices)

75081

(Zip code)

(Registrant's telephone number, including area code) (214) 680-9913

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$.10 par value

Outstanding at May 8, 1992
2,881,119 shares

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COMPUTER AUTOMATION, INC.

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PART I. FINANCIAL INFORMATION

**COMPUTER AUTOMATION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>March 31, 1992</u> (unaudited)	<u>June 30, 1991</u>
<u>ASSETS:</u>		
CURRENT ASSETS:		
Cash	\$ 446,000	\$ 282,000
Accounts receivable, less allowance for doubtful accounts of \$39,000 at March 31, 1992 and \$50,000 at June 30, 1991	1,006,000 *	1,595,000
Notes receivable (Note 6)	378,000	419,000
Inventories (Note 2)	2,814,000	2,380,000
Prepaid expenses	<u>312,000</u>	<u>217,000</u>
Total current assets	4,956,000	4,893,000
Property and equipment, at cost	2,059,000	2,007,000
Less: Accumulated depreciation	<u>(1,749,000)</u>	<u>(1,639,000)</u>
Property and equipment, net	<u>310,000</u>	<u>368,000</u>
Capitalized software, net	8,000	31,000
Goodwill, net	279,000	356,000
Other assets	<u>185,000</u>	<u>65,000</u>
	<u>\$ 5,738,000</u>	<u>\$ 5,713,000</u>

See accompanying notes.

COMPUTER AUTOMATION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(continued)

	March 31, <u>1992</u> (unaudited)	June 30, <u>1991</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY:</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 3)	\$ ---	\$ 1,127,000
Convertible debenture (Note 3)	1,750,000	---
Accounts payable	684,000	867,000
Accrued expenses:		
Employees' compensation	264,000	249,000
Other (Note 1)	<u>731,000</u>	<u>759,000</u>
Total current liabilities	3,429,000	3,002,000
STOCKHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value:		
Authorized 1,000,000 shares	---	---
None outstanding		
Common stock, \$.10 par value:		
Authorized 10,000,000 shares, issued and outstanding, 2,881,119 shares at March 31, 1992 and 2,770,943 shares at June 30, 1991	288,000	277,000
Other stockholders' equity	<u>2,021,000</u>	<u>2,434,000</u>
Total stockholders' equity	<u>2,309,000</u> <u>\$5,738,000</u>	<u>2,711,000</u> <u>\$5,713,000</u>

See accompanying notes.

COMPUTER AUTOMATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	1992	1991	1992	1991
Revenues	\$ 1,028,000	\$ 2,232,000	\$ 4,602,000	\$ 9,004,000
Cost of revenues and expenses:				
Cost of revenues	733,000	1,388,000	2,671,000	4,772,000
Selling, engineering and development, and administrative	1,143,000	1,025,000	3,746,000	3,136,000
Royalty income (Note 4)	(32,000)	(567,000)	(1,398,000)	(642,000)
Other (income) expense, net	<u>(11,000)</u>	<u>(118,000)</u>	<u>70,000</u>	<u>319,000</u>
Income (loss) before taxes	(805,000)	504,000	(487,000)	1,419,000
Provision for taxes	<u>---</u>	<u>13,000</u>	<u>24,000</u>	<u>36,000</u>
Net income (loss)	\$ <u>(805,000)</u>	\$ <u>491,000</u>	\$ <u>(511,000)</u>	\$ <u>1,383,000</u>
Net income (loss) per common share	\$ <u>(0.28)</u>	\$ <u>0.17</u>	\$ <u>(0.18)</u>	\$ <u>0.49</u>
Average common shares and common equivalent shares outstanding	<u>2,880,000</u>	<u>2,860,000</u>	<u>2,857,000</u>	<u>2,820,000</u>

See accompanying notes.

COMPUTER AUTOMATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	<u>Nine Months Ended March 31,</u>	
	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Net income (loss)	\$ (511,000)	\$1,383,000
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	212,000	222,000
(Increase) decrease in accounts receivable	589,000	(445,000)
(Increase) decrease in inventories	(434,000)	204,000
Increase in prepaid expenses	(95,000)	(79,000)
Increase in other assets	(120,000)	(7,000)
Increase (decrease) in accounts payable	(183,000)	(369,000)
Increase (decrease) in accrued expenses:		
Employees' compensation	15,000	(31,000)
Other	(28,000)	(416,000)
Total adjustments	(44,000)	(921,000)
Net cash provided by (used in) operating activities	(555,000)	462,000
Cash flows from investing activities:		
Reduction in principal of notes receivable	41,000	660,000
Capital expenditures	(54,000)	(158,000)
Net cash provided by (used in) investing activities	(13,000)	502,000
Cash flows from financing activities:		
Proceeds from convertible debt issuance	1,750,000	---
Increase (decrease) in long-term debt	(1,127,000)	(936,000)
Proceeds from issuance of common stock	109,000	---
Net cash provided by (used in) financing activities	732,000	(936,000)
Net increase (decrease) in cash	164,000	28,000
Cash at beginning of period	282,000	44,000
Cash at end of period	\$ 446,000	\$ 72,000

Supplemental disclosure of cash flow information:

The Company paid \$37,000 and \$285,000 in interest expense in the nine month periods ending March 31, 1992 and 1991, respectively.

See accompanying notes.

COMPUTER AUTOMATION, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary, consisting only of normal recurring adjustments, to present fairly Computer Automation, Inc.'s financial position as of March 31, 1992, and the results of its operations for the three and nine month periods ended March 31, 1992 and 1991, and its cash flows for the nine month periods ended March 31, 1992 and 1991. The results of operations for the three and nine month periods ended March 31, 1992 are not necessarily indicative of the results to be expected for the full year.

The accounting policies followed by Computer Automation are set forth in Note 1 of Notes to the Company's Consolidated Financial Statements for the fiscal year ended June 30, 1991, which statements and notes thereto are set forth in the Company's report on Form 10-K for the same year.

Accrued Expenses - other includes deferred revenue of \$329,000 and \$231,000 at March 31, 1992 and June 30, 1991, respectively. Deferred revenue relates to the Company's service contracts with its customers which is recognized in the month the service is rendered. The service contracts are for terms of twelve months or less.

2. Inventories consisted of the following:

	March 31, 1992	June 30, 1991
Raw materials and finished parts	\$ 1,532,000	\$ 1,554,000
Work in process	637,000	298,000
Finished goods	<u>645,000</u>	<u>528,000</u>
Total inventories	\$ <u>2,814,000</u>	\$ <u>2,380,000</u>

3. On August 15, 1991, as a result of funds received from IBM Corporation (see Note 4 to these Financial Statements) the Company paid the remaining balance on notes issued in the January, 1990 private placement in full, including accrued interest, or a total of \$1,094,000.

On February 10, 1992, the Company entered into a Convertible Debenture Loan Agreement which provided a loan of \$1,750,000 to be used for working capital purposes. The agreement provides for interest at 12.5% payable quarterly, with no principle payments until April 1, 1995. The debenture may be converted at any time into shares of the Company's common stock at a price of \$1.25 per share, subject to adjustment for stock splits, combinations or dividends. Absent conversion, between April 1, 1995 and October 1, 1998, the Company must make equal monthly payments reducing the outstanding principle by one-half, with the balance maturing on January 1, 1999. Commencing on April 1, 1995, the Company may redeem the entire debenture at 115% of par; commencing April 1, 1996 at 110% of par; and from April 1, 1997 on at 105% of par. Under

COMPUTER AUTOMATION, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

this agreement the Company must maintain certain financial ratios, including current assets to current liabilities, and minimum levels of stockholders equity, starting at \$2,500,000 and adjusted each fiscal year thereafter. The agreement also provides for certain other constraints and compliances, and for registration of the common stock upon conversion. However, the Company is not required to incur the expense of such registrations for the first three years of the agreement. The agreement does not restrict dividends (except as to the maintenance of minimum equity requirements) and allows the Company to obtain up to \$250,000 in working capital borrowing if required for operations. In addition, the Company has provided a security interest in the Q/FAX technology until such time as the Company records four consecutive quarterly profits.

As a result of the loss in the third quarter of fiscal 1992, the Company is not in compliance with either the minimum equity requirement or the minimum interest coverage requirement of the loan agreement. As of May 12, 1992, the Lender has not declared a default on the loan as a result of this non-compliance. Should the Lender declare a default under the agreement the Company would have 30 days to remedy the default before the Lender could declare an "event of default." Upon the occurrence of an event of default, the Lender may declare the entire amount due and payable. As a result of this, the Convertible Debenture is classified in these financial statements as a current liability. After this reclassification, the Company is also not in compliance with either the minimum net working capital requirement or the minimum current ratio requirement of the loan agreement.

4. In July 1991, the Company reached an agreement with International Business Machines (IBM) to amend the Patent Cross License Agreement, dated January 1, 1987, whereby IBM will have royalty-free use of the Company's Automatic Modular Memory Address Allocation System Patent in consideration of a lump sum payment of \$1,600,000. Of this amount, \$285,000 related to royalties accruing prior to June 30, 1991 and the balance was recorded as royalty income in the three month period ended September 30, 1991.
5. Earnings per share are based on the weighted average number of shares outstanding during each period. Shares issuable upon the exercise of stock options or warrants (common stock equivalents) are included when the effect is dilutive, using the treasury stock method. Fully diluted earnings per share are not presented as they do not significantly differ from primary earnings per share.
6. Upon the sale of its Commercial Systems Division in 1985, the Company received three installment notes aggregating \$4,273,000 with payment guaranteed by the debtor's principal shareholder. In July 1987 an unrelated company purchased selected assets and assumed certain

COMPUTER AUTOMATION, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

liabilities of those U.S. and European operations, including the above referenced notes. The payments under all notes were revised to require equal monthly payments, including interest, totaling approximately \$87,000, beginning July 1987 and continuing through September 1991, the final payment date of the original notes.

All monthly payments under these notes were made as required through the payment due March 31, 1991. However, the debtor defaulted on the payment of principal and interest in connection with the April 1991 due date, although continuing to make monthly payments at approximately 50% of the scheduled rate, through June 1991 (all payments being received after the month end). No payments have been subsequently received and the debtor could not provide an adequate work-out schedule acceptable to the Company. Consequently, in July 1991, the Company filed suit in the Superior Court of the State of California for the County of Orange seeking immediate payment of the remaining principal, approximately \$381,000, plus interest, penalties and costs. At the court hearing on this matter in April, 1992, the parties failed to reach a settlement on this matter and the court established an August, 1992 date for a trial. The Company believes the balance due to be collectible and accordingly has not established any reserve related to the notes.

7. On July 4, 1991, a civil action was filed against the Company by Yrel Electronique et Informatique company (YREL) in the Tribunal of Commerce of Versailles, Versailles, France. The complaint appeared to be based upon claims of unfair competition and purported to state causes of action for breach of contract and loss of business. YREL sought damages in the amount of FF4,000,000 (approximately \$724,000) plus court costs. In October, the Company received notice that YREL was placed in receivership and the legal proceedings against the Company were in abeyance while the court appointed receiver determined a course of action. In February, the Company received notice that this proceeding was removed from the Court of Versailles by administrative action. This means the Liquidator or Receiver must take action to reinstitute the proceedings.

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

General

The Company completed the restructuring begun in 1990 with the transfer in April 1991, of the OEM product service operations to Richardson, Texas, where it joined the corporate and U.S. Q/FAX and ruggedized PC product operations already there. The focus placed on automatic test equipment ("ATE") and traditional OEM products in the first half of fiscal 1991 resulted in increased revenue and profitability in fiscal 1991. However, during the second half of fiscal 1991 both ATE and OEM customers were curtailing or delaying capital expenditures, which was largely responsible for the lower level of revenue in the second half. This trend continued during the first three quarters of fiscal 1992. The Q/FAX product, which in conjunction with MicroVAX computers may be used to transmit and receive images directly to or from remote fax machines or remote similarly equipped computers, generated increased revenues in the first nine months of fiscal 1992, but not enough to offset the decline experienced in ATE revenues.

During the last quarter of fiscal 1991 and the first quarter of fiscal 1992, the Company revised its marketing focus in the ATE and Q/FAX product lines. The Company introduced the new Series 2000 Automatic Functional Test System and added the S20 MDA/In-circuit Analyzer as a complimentary product offering. The ATE marketing focus for the revised product line is designed to address the price/performance characteristics required by the commercial marketplace, as well as the increasingly price sensitive military market. However, despite these efforts and higher sales and marketing expenditures, the general uncertainty regarding the overall economy during the first nine months of fiscal 1992 caused continued deferment in purchasing by potential buyers.

The Company is marketing the Q/FAX product as a fax management system, which in conjunction with DEC's MicroVax and VAX 4000 computers and a wide variety of complementary software, is intended to meet the needs of companies faced with rapid growth in fax machines and fax traffic who are determining that fax communications must be integrated with the existing management information systems. Additionally, the Q/FAX product is intended to meet the needs of information services providers who will be able to generate additional revenues through fax services. The Company increased the expenditures on the Q/FAX product line in the first three quarters of fiscal 1992 in the areas of sales and marketing and engineering and development, primarily by adding personnel, advertising and incurring development related expenses.

The Company believes that its traditional OEM products will continue to be a significant portion of its revenues in fiscal 1992, as a result of sales to existing customers in Europe and to end users in the United States and service revenues. The Company will continue to make minor enhancements of the products

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

currently offered based on customer interest, but no significant expenditures on product development or advertising are currently planned for the OEM product line.

Although the Company reached a Patent Licensing Agreement with NCR Corporation which will provide ongoing royalties and is continuing to seek other licensees, as a result of the Agreement reached with IBM Corporation, the Company does not anticipate that future royalty income from the AMMAAS Patent will be significant.

As a result of continued weakness in revenues in the third quarter of fiscal 1992, the Company has canceled certain planned expenditures for personnel and marketing, reduced the number of employees worldwide by approximately 20% and instituted other cost saving programs. Product revenues, especially ATE revenues have continued to be depressed below the levels anticipated by the Company, as customers continue to postpone purchases of equipment. Q/FAX revenues have not increased sufficiently in fiscal 1992 to offset the reductions in other product revenues.

Although the Company has seen signs suggesting improvement for the fourth quarter of fiscal 1992, it is too early to determine whether revenues will return to a level sufficient enough to provide profitability. Depending on the amount and timing of revenue production in the fourth quarter, the Company may be required to initiate further cost reductions. Significant increases over third quarter revenue levels will be required in the fourth quarter in order to operate profitably, even with further cost reductions.

Liquidity and Capital Resources

During the nine months ended March 31, 1992, the Company's cash position increased by \$164,000, primarily due to the proceeds from the convertible debenture and the royalty income received from IBM Corporation, offset by the payment of the previous debt and the losses from operations.

In the second and third quarters of fiscal 1992, the Company experienced a significant decline in ATE revenues. The Company had anticipated revenues from various customers, primarily military or military related spare parts and upgrades, which were almost unanimously delayed or postponed. Although the Company believes that substantially all of the business will be consummated in calendar 1992, this delay severely impacted the Company's operating results and cash flows for both quarters. As a result of the decline in ATE revenues experienced in the second quarter of fiscal 1992, the Company's cash flow was strongly impacted during January, 1992 and vendor payments were delayed. On February 10, 1992, the Company entered into a Convertible Debenture Loan Agreement which provided \$1,750,000 for working capital purposes. This agreement is more fully discussed in Note 3 of the Financial Statements herein. These proceeds allowed the Company to pay its trade vendors on a timely basis during the quarter and into April 1992.

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

However, as a result of the \$805,000 loss incurred in the third quarter, the Company again experienced cash shortages beginning in late April and expects these shortages to continue during the quarter until receipts on accounts receivable improve. Vendor payments will again be delayed during this time. Improved revenue levels in ATE and Q/FAX products during May and June will be required to avoid further worsening of cash shortages. In addition, as a result of the loss in the third quarter, the Company is not in compliance with the terms of the loan agreement (see Note 3 of these financial statements).

Results of Operations

Nine Months Ended March 31, 1992 and 1991

Revenues for the nine months ended March 31, 1992 decreased 49% from the year earlier period primarily due to a substantial decrease in ATE product revenue worldwide, especially in the second and third quarters. Traditional OEM product and service revenues also declined from the prior year nine month period. Partially offsetting this decrease were Q/FAX product revenues, which increased during the current nine month period. ATE service revenues were up slightly from the previous nine month period.

The significant decrease in ATE product revenue in the first nine months of fiscal 1992 was due to customers' delays and postponements of orders. This phenomenon was particularly acute in the second and third quarters, and the majority of the customers whose anticipated orders were delayed were military or military related customers.

Cost of revenues declined 44% when compared to the year earlier period, resulting in a gross margin on revenues of 42%, as compared to 47% in the nine months ended March 31, 1991. This reduction was primarily the result of the decline in revenues. Significantly lower manufacturing costs and lower service costs during the current nine month period, however, aided in reducing cost of revenues in spite of the revenue decline worldwide.

Selling, engineering and development, and administrative expenses increased 19% as compared to the year earlier nine month period, due to ATE and Q/FAX selling and engineering and development expenses. These increased expenditures were the result of the new product marketing and development programs which the Company undertook in fiscal 1992. Administration expenses decreased 12% from the prior year nine month period.

Royalty income during the current nine month period is primarily the result of the agreement reached with IBM Corporation, as previously noted. Royalty income in the prior nine month period was also primarily from IBM Corporation.

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Other (income) expense, net in the current nine month period reflects the lower interest expense incurred due to repayment of the debt in August, 1991.

The loss before taxes of \$487,000 during the current nine month period was the result of lower revenues and increased operating expenses partially offset by royalty income. Income before taxes in the prior year nine month period of \$1,419,000 was primarily the result of higher revenues, lower operating expenses, and royalty income.

The provision for taxes of \$24,000 and \$36,000 in the respective periods reflects the fact that the Company has net operating losses in most of the taxing jurisdictions in which it operates which are available to offset future income taxes.

The net loss for the first three quarters of fiscal 1992 of \$511,000, or \$0.18 per share compared to the net income of \$1,383,000, or \$0.49 per share, realized in the first three quarters of fiscal 1991, resulted primarily from substantially higher ATE product revenues during the period.

Three Months Ended March 31, 1992 and 1991

Revenues for the quarter ended March 31, 1992 decreased 54% from the year earlier quarter primarily due to decreased ATE and traditional OEM product revenues worldwide. Cost of revenues decreased 47% compared to the prior year period, as lower manufacturing and service costs only partially offset the reduction in revenues.

Selling and engineering and development expenses increased 12% as compared to the year earlier quarter, due to increases in ATE and Q/FAX selling and engineering and development expenses which were only partially offset during the quarter by cost reductions efforts. Administration expenses decreased worldwide.

As a result of decreased revenues and gross margins and higher operating expenses, the loss before taxes in the current quarter was \$805,000, or \$0.28 per share. There was no tax provision in the current quarter due to the loss. In the year earlier quarter, higher revenues and royalty income produced income before taxes of \$504,000, which, offset by the tax provision of \$13,000, resulted in net income of \$491,000, or \$0.17 per share for the quarter.

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

PART II. OTHER INFORMATION

Item 2. Changes in Securities.

See footnote 3 of the Notes to Condensed Consolidated Financial Statements for information with regard to restrictions under a Convertible Debenture Loan Agreement.

Item 6. Exhibits and Reports on Form 8-K

- a) Exhibits: None.
- b) Reports on Form 8-K: None

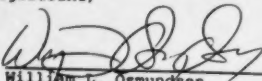
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPUTER AUTOMATION, INC.
(Registrant)

Date May 12, 1992

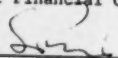
By



William L. Osmundsen
President and
Chief Financial Officer

Date May 12, 1992

By



George Pratt
Chairman and
Chief Executive Officer